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State Department, USTR Examine Bilateral Relations

In revealing comments that might reflect a fundamental shift in American policies, Under Secretary of State Lawrence S. Eagleburger suggested last week that difficulties between the United States and its European allies could result in greater emphasis by this country on bilateral relations with Japan.

Speaking on the record, Mr. Eagleburger said that divergent interpretations of international security problems have produced "what I would have to describe as the shift of the center of gravity of U.S. foreign policy from the transatlantic relationship toward the Pacific Basin and particularly

Japan's 1983 Balance of Payments

According to balance-of-payment figures released by the Ministry of Finance, Japan's current account (the trade balance plus services and transfers) registered a record surplus of over $21 billion, reflecting a $31.6 billion trade surplus. The overall balance reversed a four-year string of deficits, showing a surplus of $5.2 billion. Japan continues to run a deficit in services trade and the long-term capital deficit continues to widen. The basic balance (the current-account balance plus long-term capital flows), however, also registered a surplus for the first time in five years. Balance-of-payment statistics for the last five years are summarized in the table below.

Japan's Global Balance of Payments

(in millions of dollars, IMF value basis, seasonally unadjusted)

	1983	1982	1981	1980	1979
Exports (f.o.b.)	$145,529	$137,663	$149,552	$126,736	$101,232
	(5.7)	(-7.9)	(18.0)	(25.2)	(5.7)
Imports (f.o.b.)	113,780	119,584	129,555	124,611	99,387
	(-4.9)	(-7.7)	(4.0)	(25.4)	(39.9)
Trade Balance	31,649	18,079	19,967	2,125	1,845
Services	-9,058	-9,848	-13,573	-11,343	-9.472
	(8.0)	(27.4)	(-19.6)	(-19.7)	(-28.2)
Transfers	-1,567	-1,381	-1,624	-1,528	-1,127
	(-13.5)	(15.0)	(-6.3)	(-35.6)	(-67.0)
Current-Account Balance	21,024	6,850	4,770	-10,746	-8,754
Long-term Capital	-17,798	-14,969	-9,672	2,324	-12,976
	(-18.9)	(-54.8)	(-516.2)	(-117.9)	(4.7)
Basic Balance	3,226	-8,119	-4,902	-8,432	-21,730
Short-term Capital	176	-1,579	2,265	3,141	2,735
	(111.1)	(-169.7)	(-27.9)	(14.8)	(77.8)
Errors & Omissions	1,775	4,727	493	-3,115	2,333
Overall Balance	5,177	-4,971	-2,144	-8,396	-16,662

Note: Figures in parentheses are percentage change from previous year.

With near-record exports of $145 billion and contracting imports of $114 billion (a 4.9 percent drop from the previous year), the trade surplus of $31.6 billion easily tipped the overall balance toward surplus. The 5.6 percent rise in exports was attributed by the Finance minister to the strengthening world economy, especially the U.S. recovery, while oil price declines were responsible for the drop in imports (see JEIR 4B, January 27,

1984). The strong dollar and looser restrictions on foreign activities for both Japanese commercial and financial businesses helped push the long-term capital balance into the red for the third consecutive year: capital outflows from Japan rose $5.1 billion to $32.5 billion, outweighing a rise in capital inflows of $2.3 billion to $14.8 million during 1983. Japanese banks were extremely active in the Euromarket, increasing their holdings above those of other participants. Changes favorable to Japan also occurred in the services and short-term capital categories, contributing to the record performance.

The payments surplus reflects the growth of Japan's gross national product which began to pick up speed during 1983 after a lackluster performance in the previous two years. While growth was clearly export led, the figures for December indicate that domestic demand is beginning to revive (imports rose over 10 percent from the same month a year ago).

According to conventional economic theory, a rising current-account surplus should increase pressure on the yen to appreciate against the U.S. dollar. However, so long as U.S. real interest rates remain high, the yen is not likely to appreciate much even coupled with record American trade deficits. This prospect would seem to lead to even higher trade and current-account surpluses, but other economic factors now in motion could dampen that trend. If Japan's economy does manage to expand at the forecast 4.1 percent annual rate on the strength of a 5.1 percent rise in capital investment and a 4.1 percent increase in private consumption, the payments surplus may moderate as the economy pulls in more imports of raw materials and manufactured goods. As the American economy's growth begins to calm, Japan's export growth will also tend to drop, again reducing the overall payments surplus.

The political fallout from Japan's strong showing may be greater than its economic impact. The record-setting surplus translates into deficits for Japan's key trading partners, in particular the United States. In an American election year, the Japanese are concentrating on solving bilateral trade issues now to avoid further politicization as the campaign season gets underway. The recent flurry of activity by American and Japanese officials attests to the mutual interest of the two governments in putting to rest long-standing problems as soon as possible. Unfortunately, nothing Prime Minister Nakasone or President Reagan does will prevent U.S. politicians from raising a fuss over Japan's favorable economic position. As candidates line up on U.S.-Japan bilateral trade issues, few are likely to choose Japan's side.

Jon Choy

Bilateral Trade Imbalance Played Small Role in U.S. Deficit

Lackluster business conditions in most major foreign markets and steady economic recovery in this country teamed up with the strong dollar in 1983 to produce a record-shattering U.S. merchandise trade deficit. At $57.5 billion, the overall red-ink trade entry topped 1982's near-peak deficit by a whopping $25.8 billion. Sales abroad dropped for the second year in a row, falling 5.5 percent to $200.5 billion. At the same time, imports, which